Ic 2/987-88

Foreign Labor Trends

Iceland

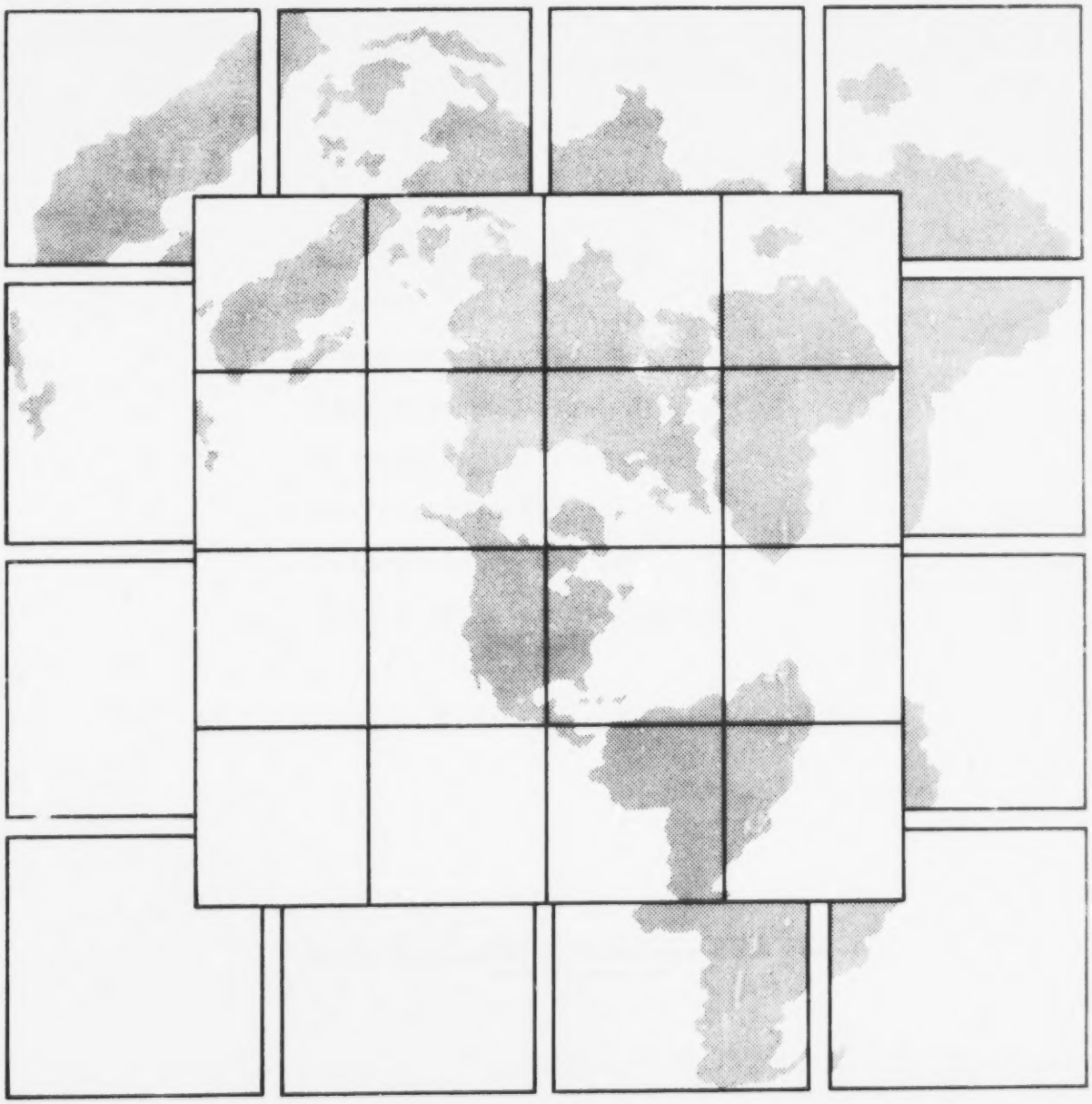
Released by
U.S. Department of Labor
Bureau of International Labor Affairs

Prepared by
American Embassy
REYKJAVIK

1987 - 1988

FLT 89-14
Frequency: Annual

Supersedes: 87-51



READEX FICHE best copy available

L 29.16:

For sale by the Superintendent of Documents, U.S. Government Printing Office
Washington, D.C. 20402

FOREIGN LABOR TRENDS REPORT

ICELAND

1987-1988

TABLE OF CONTENTS

Page	
1	Key Labor Indicators
2	Summary
3	Background to the 1988 Negotiations
4	1988 Wage Negotiations
6	Government Intervention
8	National Conventions
9	Grim Economic Outlook
9	Future of Labor Relations

LABOR TRENDS IN ICELAND

1987 - 1988

Key Labor Indicators

	1986	1987
Population, total (000)	244.9	247.4
----------, growth rate (percent)	0.8	1.36
Birth rate	16.1	16.2
Life expectancy at birth, male	74.7	74.7
----------, female	80.2	80.2
Adult literacy rate (percent)	100	100
Labor force, (000)(prelim.)	124.5	126.7
Employment, in industry & construc.	38.9	NA
---, in agriculture & fishing	13.5	NA
----------, in services & govt.	67.2	NA
Unemployment rate (percent)	0.7	0.5
Work-related accidents, illnesses (pct.)	4.5	5.0
Workdays lost, ind. disputes (000)	1.8	98.5
Minimum wage rates (US$ per month, fish processing excl.bonuses)	456.20	722.20
Avge. hrly. earnings, maj. ind.(US$):		
---male, fish proc. incl. bonuses	5.30	7.70
---female, fish proc. incl. bonuses	4.95	7.15
---male, office/stores	7.70	11.60
---female, office/stores	5.60	8.45
Average hours worked per week,		
---unskilled workers	52.7	52.7
---skilled workers	50.4	51.3
Unionization of labor (percent)	98	98
Rate of change in cost-of-living index during calendar year (percent)	12.8	26.1
Trade with U.S. - exports (US$ mill.)	237.4	250.4
---imports (US$ millions, cif)	78.0	112.8
Percent of population beneath absolute poverty level:	No official definition of poverty	

Summary

In 1988, the labor movement in Iceland was in a turbulent phase. In a break with tradition, the unions in the Icelandic Federation of Labor (IFL), which includes almost all workers in the private sector, decided not to engage in national negotiations for a master wage agreement covering all unions but instead opted to let local unions and constituent federations within the IFL try their hand at negotiating labor contracts.

This left the Confederation of Icelandic Employers (CIE), as a united bargaining unit representing almost all employers in the private sector, searching for a way to avoid a multitude of negotiations with local unions and possible chaos in labor relations. The CIE set about attempting to negotiate agreements with some of the larger unions and constituent federations within the IFL in the hope that such agreements would serve as the pattern for agreements throughout Iceland. Although the CIE did succeed in negotiating a series of agreements with the leadership of several national federations, and in some cases local groupings of unions, these agreements were often initially rejected by the labor rank and file. A prime example of this occurred when virtually all unions in the National Association of Office and Store Workers (NAOSW) voted to strike in late April rather than accept the contract their national leaders had negotiated and signed with the CIE.

The NAOSW strike lasted seven days in Reykjavik and a bit longer outside the capital, and the fact that none of the skilled workers unions had concluded labor agreements by the end of April fanned growing fears of further chaos in labor relations and possible damage to the nation's economy. Consequently, the Government decided to intervene in the labor market and promulgated a provisional law on May 20 banning further strikes and prohibiting labor agreements calling for increases in wages and benefits higher than those in the contracts already signed as of that date. The provisions of this law were to remain in force until April 10, 1989, unless superseded by an act of the Althing (Parliament). In August and September of 1988, the Government promulgated two additional provisional laws which froze wages until February 15, 1989, (and reduced the period of validity of the May 20 provisional law to this same February date), unless superseded again by the Althing. In addition, the past six months have seen more bankruptcies, plant closings, and layoffs than at any time in the last 20 years.

As a result of all of these developments, the Icelandic labor scene today is beset by more frustration and uncertainty than at any time in memory.

Background to the 1988 Negotiations

In 1986 and 1987 the focus of the labor negotiations was on the efforts of the national leaders of the IFL and the CIE to conclude a master wage agreement covering almost all workers in the nation's private sector. In these negotiations, the IFL and CIE, together with the Government, agreed on packages including moderate increases in the salary scales in the annual master wage agreements along with restraints on price increases, taxes, and government spending. These and other measures were aimed at reducing inflation and, at the same time, assuring at least moderate increases in real wages.

At the same time, this was a period of overheating in Iceland's economy and excess demand for labor. This meant that the problem of "wage drift," i.e. some groups of workers demanding and getting much higher compensation than specified in the wage scales in the master national agreement, grew much worse than at any time in recent memory. Hence, although the master wage agreements for 1986 and 1987 called for only moderate increases in wages--ranging from 17 to 18.2 percent per year in average nominal wages including cost-of-living increases--wage drift meant that they actually grew much more quickly, especially for some groups. According to Central Bank statistics, nominal wages, including wage drift, grew an average of 32.5 percent and 42.1 percent in 1986 and 1987, respectively, while real wages grew by an average of 9.5 percent and 24.2 percent over these same years. Moreover, during this same period, wage drift has distorted traditional wage differentials among occupations to an unprecedented degree, with skilled workers far outdistancing other groups.

Despite these increases, the 1987 master wage agreement ran into trouble. Problems arose because the consensus and cooperation between labor, employers, and government, which underpinned the wage-price-inflation-restraint package, rapidly unraveled during the period prior to the parliamentary elections in April 1987 when: (A) There was a marked increase in political attacks on labor's leadership and policies, particularly from the left which argued that the leadership was too soft, and that as a result, wage increases called for in the master wage agreements were too small. For unskilled and other workers not in a strong enough bargaining position to benefit from wage drift, these were their only wage increases. The leftists charged that the leadership had allowed a disproportionate share of the burden of the fight against inflation to be placed on the shoulders of labor, especially the lowest-paid workers, despite the fact that the leadership had secured somewhat larger wage increases for this very group. (B) The public sector unions, which had previously

followed the lead of the private sector unions, broke ranks and obtained much higher wage increases than their opposite numbers in the private sector. (C) The restraints on increases in prices, taxes, and government spending broke down and, in many cases, all but disappeared.

As a result of these developments, the national leaders of the IFL were sidelined and had virtually no direct role in the labor negotiations in 1988. This left the CIE, which still remained strong and united, casting about for a suitable negotiating partner among the various national trade union federations within the IFL.

1988 Wage Negotiations

The CIE hoped to make an agreement with a sufficiently large and influential union so that this could be used as a model for virtually all other agreements, and none of the major unions would feel themselves in a position to get significantly better terms. Otherwise the CIE, which holds the exclusive authority to bargain for virtually all employers in the private sector, would have to engage in literally hundreds of negotiations with individual unions. In these negotiations, the CIE planned to use the economic data which was coming to light in the winter and spring of 1988 to convince the unions, particularly key labor leaders, that the Icelandic economy had become overheated and that wage increases would have to be held to levels well below those in 1986 and 1987 in order to avoid serious economic problems which conceivably could hurt the entire nation in 1988.

After a series of gloomy economic statistics and forecasts from various governmental and quasi-governmental agencies in January and February, the CIE and the National Association of General and Transport Workers (NAGTW) initiated negotiations and concluded an agreement on February 26, 1988, which called for a 9.4 percent average wage increase immediately on the agreement's entry into force, a 3.25 percent increase June 1, a 2.5 percent increase on September 1, and a 2 percent increase February 1. However, only 9 of the 51 unions within the NAGTW initially voted to accept the contract, shattering any hope that this agreement might set the pattern for other labor agreements and dealing a serious blow to the prestige of the NAGTW's national leadership. (The CIE renegotiated with the unions within the NAGTW and signed a new agreement on March 25, 1988, which improved the terms as follows: an initial increase of 10 to 14 percent and periodic increases of 3.25 percent on June 1; 2.5 percent on September 1; 1.5 percent on December 1; and 1.25 percent on March 1, 1989.)

Next the CIE commenced negotiations with both the National Association of Factory Workers (NAFW) and with the NAOSW. These negotiations resulted in a contract on March 21, 1988, calling for a minimum initial wage increase of 5.1 percent (average initial increase was estimated at 8.5 percent); a 3.25 percent increase on June 1; a 2.5 percent increase on September 1; a 1.5 percent increase on December 1; and a 1.25 percent increase on March 1, 1989. Although the factory workers, who feared plant closings and layoffs, quickly voted to accept this contract, the store workers overwhelmingly voted to reject it. In the ensuing weeks, the local unions of the NAOSW also voted down two proposals by the State Mediator for compromise agreements and, after giving the required one-week notice, commenced a strike on April 22.

With the strike closing offices and stores throughout the country except for those operated by owners and their immediate families, the public was inconvenienced by lines and shortages of some commodities, such as milk. Moreover, since the airlines' ticketing and check-in personnel are members of these unions and set up picket lines to prevent management personnel from performing these functions, the strike virtually halted domestic and international airline passenger service -- almost cutting this island nation off from the outside world.

The strike ended in Reykjavik on April 30, when the NAOSW there voted to accept the State Mediator's third proposal for an agreement. The terms of this agreement were only a little better than the original agreement of March 21. (The office and store workers in most of the rest of Iceland initially rejected this third proposal, but soon reversed themselves and followed the Reykjavik union's lead bringing the strike to an end everywhere by May 4.)

Prior to this strike, the CIE had sent teams to Akureyri, Egilsstadir, and the Westmann Islands to commence negotiations with local unions from the fish-processing as well as other unskilled and semi-skilled sectors from the northern, eastern and southern regions, respectively. Having simultaneous negotiations in three different localities was, of course, complicated. But the situation was even more complex because in each of these towns, there were both joint and a series of parallel negotiations with the various unions.

To reduce the complexity of this situation and the natural tendency of each union to stall in an effort to wait out all of the others in order to ensure it was getting the best terms possible for its members, the CIE requested that the State Mediator convene union representatives from all these regions in Akureyri to consolidate and simplify the negotiations. These consolidated negotiations resulted in an agreement in

Akureyri on March 26 which called for an initial average wage increase of 11 percent, an increase of 3.25 percent on June 1; 2.5 percent on September 1; 1.5 percent on December 1; and another 1.25 percent on March 1, 1989. This agreement was accepted by the rank and file in virtually all of the concerned unions.

As a result of this lengthy and complicated period of negotiations, by early May the CIE had concluded agreements with unions representing virtually all of the unskilled and clerical workers in the private sector. The problem was that negotiations still loomed ahead with all of the skilled workers' unions which were holding out for much higher increases in wages and benefits.

Government Intervention

In late April and early May, the Government was becoming increasingly concerned about labor unrest, particularly three aspects of the labor relations scene. (1) The economy was still somewhat overheated, and it was feared that skilled workers, such as airline pilots, electricians, plumbers, and carpenters might be successful in using their bargaining leverage to extract much higher increases in wages and benefits than the unskilled workers had gotten. (2) Most of the unskilled workers' contracts contained "capture clauses" which would either automatically give them--or allow them to reopen contract negotiations in order to obtain--increases comparable to those received by one or more skilled unions. (3) Because of the uncertainty about the level of inflation, another feature of virtually all of the unskilled workers' agreements was "red line clauses." In the event that the cost-of-living index exceeded predicted levels, called "red lines," on June 1 and on November 1, these clauses gave labor the right to return to the bargaining table to obtain satisfactory redress or, failing this, to terminate the labor contracts. (It is interesting to note that inflation levels did not exceed the red lines on either June 1 or November 1. However, it is also argued that the November 1 red line would have been exceeded had the Government not imposed a freeze on wages and prices in the fall of 1988.)

The deliberations within the Government on possible intervention to stabilize the labor scene were widely known. As the likelihood of this actually occurring grew, there was a rush of negotiations between the skilled workers' unions and the CIE in an effort to conclude contracts before the Government acted. But the leverage had shifted, and it was now the skilled unions which were negotiating under pressure. Within two weeks, the CIE had signed agreements with over 50

unions representing skilled workers. Unlike the contracts with the unskilled workers, which for the most part run through April 10, 1989, the contracts with the skilled workers are valid through August 13, 1989. The skilled workers, who had benefited to a much greater extent from "wage drift," received increases which averaged 2 to 4 percent less than the increases of the unskilled workers. However, as has already been pointed out, 1986 and 1987 was a period of abnormally rapid wage drift. The fact that skilled workers accepted smaller wage increases in 1988 than most unskilled workers obtained only went a small distance toward redressing the imbalance which had widened rapidly over the two previous years. This imbalance continues to cause tension and frustration on the labor scene.

On May 20, 1988, the Government acted; it promulgated a provisional law intended to cool down the economy and calm labor relations. In addition to prohibiting strikes through April 10, 1989, this law had two other features affecting labor. It nullified the red line clauses of labor contracts and prohibited those unions, which had not already made labor contracts, from making agreements during this same period, which would give workers larger increases in wages and benefits than the contracts concluded before May 20. By this time, however, this prohibition had very little practical impact since the CIE had already concluded agreements with unions representing over 95 percent of the workers employed by its members.

Nevertheless, the IFL protested this Government action publicly and sent a formal complaint to the International Labor Organization (ILO) citing all three features of the provisional law as infringements of workers' rights. This matter is pending before the ILO and will probably come before the ILO Committee on Freedom of Association in early 1989.

On August 26, 1988, the Government promulgated another provisional law affecting many labor contracts. This law froze wages and prices through September 30, 1988. A third provisional law, promulgated on September 28, extended this freeze through February 15, 1989, thereby depriving most workers of two or more wage increases scheduled under existing labor contracts. The IFL publicly protested these laws and plans to raise them as additional infringements of workers' rights when its complaint against the Government comes before the ILO. The September 28 law also reduced the period of validity of the May 20 law; it will now end on February 15, 1989, instead of on April 10, 1989.

National Conventions

The Federation of Government and Municipal Workers (BSRB) held its national convention in October. Because BSRB's previous president was retiring after almost three decades in office, a three-way contest developed for the Federation's top position. By all accounts, there were no serious policy differences among the candidates and the race revolved around personalities. Ogmundur Jonasson, a news reporter for State Television, handily won a majority for the BSRB presidency on the first ballot, thereby avoiding the need for a runoff.

The IFL, which includes virtually all workers in the private sector except printers, bookbinders, and airline pilots, held its quadrennial national convention from November 21 to 25. Prior to the opening of the convention, the incumbent president of the IFL, Asmundur Stefansson, steadfastly declined to announce whether he would run for reelection to organized labor's top job. However, he announced his candidacy at the convention and was reelected to his third four-year term as the IFL's president without opposition.

There was extensive debate at the IFL convention over the Government's provisional laws of May 20, 1988, (which severely abridges labor's right to bargain collectively), and of September 28, 1988, (which freezes wages and prices through February 15, 1989). Many labor leaders criticized the fact that there has been some slippage in the freeze on prices while the freeze on wages is working much more rigorously and having the greatest impact on those in the lowest pay categories. Although some urged passage of a resolution condemning the labor leaders who had accepted the Government freeze on wages, Stefansson spoke against doing so, arguing that labor needs unity today more than ever. He also pointed out that the restrictions on labor enjoy the support of the general public and five of the six political parties in the Althing. In addition, many labor leaders from outside the southwest were more concerned about the growing problem of bankruptcies and layoffs among the fish processing firms and argued that the health of the firms in this sector and job security were much more important issues than restrictions on collective bargaining rights and the wage freeze.

Consequently, the IFL convention did not vote to take any action to oppose the provisional laws. Instead, the convention contented itself with passing resolutions (a) criticizing the Government for its attacks on labor and (b) calling on IFL members to snub an invitation to a reception from the Minister of Social Affairs (who is responsible for labor matters).

Grim Economic Outlook

As 1988 draws to a close, it is clear that Iceland's economy is going into a period of recession. Gross domestic product declined by an estimated 2.6 percent in real terms in 1988. Economists predict that at best the growth rate will be zero next year and some are saying that there will be a decline, possibly even larger than in 1988. Because of concern about possible overexploitation of the fish stocks, the Government recently announced some cuts in allowable fish catches for next year. This, coupled with falling prices for fish abroad, makes the outlook in this vital sector of the economy particularly grim.

Near the end of 1988, the CIE polled the 145 largest companies in Iceland and found that most plan to cut back on the work force they employ early next year. The CIE predicts this will boost the unemployment rate by a full percentage point--a stunning increase in a country where the unemployment rate hovers around a half percent. Even worse, in its December newsletter, the CIE asserts that if the Government sticks to its present policies, the unemployment rate will rise to 5 percent in 1989--a level not seen in this country for at least 20 years.

All of this has stimulated a great debate in Iceland about economic policy and the nation's future. Some are urging a massive Government program to help ailing businesses survive the coming hard times and to preserve jobs. Others argue that a root cause of the problem is overinvestment in fishing boats and freezing plants to process fish as well as in retail stores and office space, particularly in Reykjavik and the area surrounding the capital. Still others assert that wages increased too quickly during the boom years of 1986 and 1987 and that they must come down in order to get the high operating costs of the firms down if the vital export and export-competing sectors are to survive. Labor argues that wages are not the problem, and reducing them would also reduce demand hurting the already hard-hit retail sector of the economy and further aggravating the downward spiral of the economy.

Future of Labor Relations

In view of the grim economic outlook and debate on how to respond to it, there is a great deal of uncertainty in labor and employers' circles about what sort of wage negotiations will take place here in 1989. Most experts feel it is far too early to predict whether labor negotiations next year will

continue to be conducted by some of the major units within the IFL or whether the IFL's national leadership will be brought back in to play the sort of central role it played in the 1986 and 1987 negotiations. One local labor leader has said he believes that labor may be entering a transitional period and that several years hence, company-wide unions will emerge as the primary bargaining units on the labor scene. (Comment: At present, only six firms have company-wide unions. Of these, the ISAL aluminum firm is by far the largest and most important. Even the ISAL negotiations are not completely unified but rather more akin to parallel negotiations with all of the trade unions at the ISAL plant.)

Since the public sector workers have greater job security than their private sector counterparts, and since their contracts expire on December 31, 1988, (while most private sector, unskilled workers' contracts do not expire until April 10, 1989, and for most skilled workers, not until August 13, 1989), all eyes are now focused on the public sector unions. It is widely believed that they will be the first off the mark whenever the Government-imposed restrictions on collective bargaining expire.

In particular, the teachers' unions are thought to be restive. They have argued for years that their wages have lagged far behind those in other occupations, especially in view of their educations and responsibilities. Wage drift has given the teachers few, if any, benefits. Teachers have long been supporters of the leftist People's Alliance (PA). This party is not only in the governing coalition for the first time in years but also holds the key Ministries of Finance and Education. Accordingly, some teachers feel that, despite the difficult economic conditions, this may be their best opportunity for receiving a sympathetic hearing of their grievances and getting some sort of redress. Indeed, one of the two major teachers' unions, the Icelandic Teachers' Association (KI), announced on November 1, 1988, that it was canceling its contract. While this announcement does not have any practical effect, it does confirm that the KI is going to try to place itself in the forefront of the negotiations. The big question is whether the teachers and the Government will be able to find a way to give the teachers anything like the wage increases they themselves believe they deserve without setting a precedent for other unions in other sectors, possibly resulting in economic problems for the weaker firms and for the government.

Superintendent of Documents Subscriptions Order Form

Order Processing Code
*6314

Charge your order. It's easy!

☐ **YES,** please send me the following indicated subscriptions:

_____ subscriptions of FOREIGN LABOR TRENDS, FLT, for $53.00 each domestic subscription per year; $66.25 each foreign subscription per year.

1. The total cost of my order is _____. All prices include regular domestic postage and handling and are subject to change. International customers please add 25%.

Please Type or Print

2. _____
(Company or personal name)

_____
(Additional address/attention line)

_____
(Street address)

_____
(City, State, ZIP Code)

(_____) _____
(Daytime phone including area code)

3. **Please choose method of payment:**

☐ Check payable to the Superintendent of Documents

☐ GPO Deposit Account ☐☐☐☐☐☐☐ - ☐

☐ VISA, CHOICE or MasterCard Account

☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐

_____
(Credit card expiration date)

Thank you for your order!

_____
(Signature)

4. **Mail To:** Superintendent of Documents, Government Printing Office, Washington, D.C. 20402-9371